

REDUCING THE INEQUITIES THAT DIVIDE OUR WORLD  
**2004 annual report**

BILL & MELINDA  
GATES *foundation*

[www.gatesfoundation.org](http://www.gatesfoundation.org)



## PARTNERS AND PROGRESS

Annual reports often start off with a letter that looks at how the organization progressed over the past year. That's certainly understandable—it's always satisfying to look back at the past 12 months and say, "This is what we did."

In this letter, though, I'm going to try something different. I want to look back at the past 12 months and say: "This is what other people did."

Why? Because at the Bill & Melinda Gates Foundation, we believe that philanthropy plays a relatively small role in making social change. Foundations can act as a catalyst, but it's the private sector and governments that drive the most lasting improvements in people's lives. Theirs are the accomplishments that really deserve to be highlighted—because they made real progress on some of the most important issues we face today.

It's hard to overstate how important others' work is to our own. Bill and Melinda Gates started their foundation because they want to increase equity—to help make sure that all people, no matter where they're born, have the chance to make the most of their lives. We've chosen four areas where we think we can do the most to promote equity: global health, U.S. education, access to digital information, and grantmaking in our local region.

In each of these areas, we believe our role is to help our grantees and partners build models of success—effective new vaccines, new ways to raise high school graduation rates, etc.—that can be widely adopted.

Time and again in 2004, our partners helped make sure that promising solutions reach the people who need them. But if these models are going to have the most impact, they need to be adopted at a scale that goes far beyond the reach of any single organization. That's why the public and private sectors—and partnerships between the two—are so important for promoting equity in the United States and around the world.

For instance, in the effort to improve U.S. high school graduation rates, state governments are fostering a powerful new momentum behind an exciting model for high schools. Nearly two thirds of today's ninth graders won't graduate ready for college or work. This model, known as the early college high school, lets students earn up to two years of college

credit or an Associate's degree while they're still in high school. It creates a new pathway to college for those young people—often low-income and minority students—who might not otherwise have a chance at a post-secondary education and sets them up for success in college or a career.

As of fall 2004, thanks to support from state and local governments as well as a number of foundations, nearly 50 early college high schools with more than 8,000 students had opened in 19 states. Several states have shown fantastic leadership in this work, including North Carolina, which will open 75 new early college high schools in the next five years.

The private and public sectors are uniting on several fronts in global health too. For instance, 2004 brought some very encouraging news in the search for a vaccine to stop malaria—a disease that kills more than 1 million people every year, mostly children in Africa. That's nearly two people every minute.

The vaccine candidate, known as RTS,S, could make a huge difference for millions of people. It had been under development in government and industry laboratories for 20 years, but as corporate priorities changed, testing and development on it almost came to a stop. In 2000, the Malaria Vaccine Initiative set out to change that by reinvigorating international efforts to develop vaccines. They created a partnership that brought together the pharmaceutical company GSK Biologicals, the government of Mozambique, the Manhica Health Research Center in Mozambique, and others. What they announced in 2004 is truly exciting: the first solid evidence ever that a malaria vaccine for children is possible. Next up are pivotal trials to confirm that it's safe and effective in children. If it is, it could save millions of lives.

In the United States, state governments showed their commitment to providing the public with free access to computers and the Internet via public libraries. Between 1997 and 2003, the Gates Foundation and our partners worked with 11,000 libraries across the country to install public-access computers. More than 14 million Americans use these computers regularly.

Now the challenge is to keep the computers connected and the library staff trained to use them. To do that, 37 states and the District of Columbia leveraged our Staying Connected challenge grants to raise an additional \$7 million in 2004.

Finally, in our home state, the Washington Legislature began what we hope will be an innovative program to end family homelessness. It's a daunting problem: More than half of the residents of Washington's homeless shelters are families. In response, the Legislature created the Washington Families Fund, which will provide a reliable funding stream for services linked to affordable housing that help homeless families.

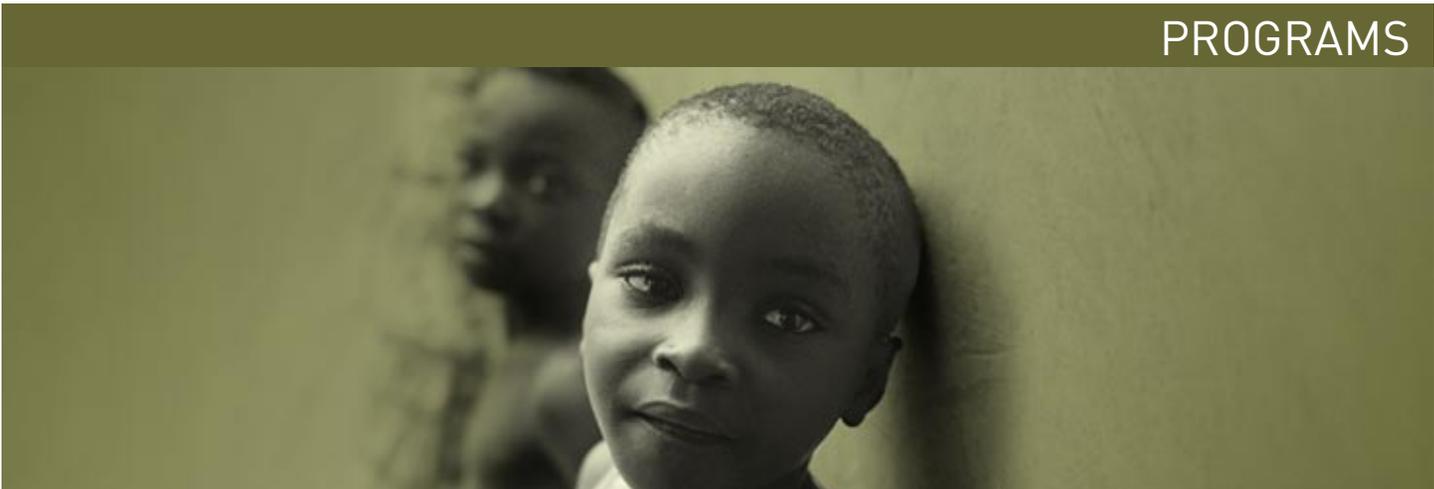
With contributions from the state and private donors, this fund could grow to more than \$5 million in 2005. One of the catalysts for creating it was the success of the Sound Families Program, a public-private partnership supported by the Gates Foundation. By the end of 2004, Sound Families had funded more than 846 new affordable-housing units in Seattle.



These are just four examples of how governments, the private sector, and foundations can work together to help people improve their lives. In 2004 we made more than 400 grants (see <http://gatesfoundation.org/Grants/default.htm?showYear=2004>) to help further this work. These projects represent exactly the kind of innovative work that will make the world a more equitable place. One day I know we'll be able to look back and say: "This is what we all did, together."

**Patty Stonesifer**

*Co-chair and President*



## GLOBAL HEALTH

Closing the health gap between rich and poor countries by creating new health solutions and ensuring that existing solutions reach those in greatest need.

## EDUCATION

Ensuring that all students in the United States graduate from high school ready for college, work and citizenship by supporting great high schools.

## GLOBAL LIBRARIES

Supporting free access to information via computers in libraries in the United States and other countries.

## PACIFIC NORTHWEST

Helping at-risk families in our region improve their lives by supporting a number of human services.



## OVERVIEW

NEVER BEFORE HAVE WE HAD SUCH ADVANCED TOOLS TO BOTH SPREAD AWARENESS OF HEALTH PROBLEMS AND DISCOVER AND DELIVER SOLUTIONS. WE HAVE A HISTORIC CHANCE TO BUILD A WORLD WHERE ALL PEOPLE, NO MATTER WHERE THEY'RE BORN, CAN HAVE THE PREVENTIVE CARE, VACCINES, AND TREATMENTS THEY NEED TO LIVE HEALTHY LIVES.

Richard D. Klausner, M.D.

Executive Director,

Global Health

Applying science and technology to improve public health is one of the past century's greatest accomplishments. The pace of innovation in health promises to accelerate as developments like the decoding of the human genome revolutionize our ability to prevent and treat disease.

But lifesaving advances are failing to benefit those who need them most—people in the poorest countries. Two thirds of deaths in young children are entirely preventable with tools that exist today—such as vaccines to prevent measles, diphtheria, and tetanus.

Some of the most serious diseases affecting the developing world, such as HIV/AIDS, tuberculosis (TB), and malaria, lack effective, affordable solutions. This is largely because just a small fraction of the billions spent on medical research every year is used to discover new vaccines and medicines for these and other diseases common in poor countries.

The foundation's Global Health program is based on the belief that all lives, no matter where they are lived, have equal value. We target our grants to programs that have the potential to provide the greatest benefit for the most people. We focus our grantmaking on two priority areas: research to develop new health solutions and programs to expand the reach of existing health tools.

In 2004, we saw significant progress in a number of areas, including the critical challenges of developing vaccines to prevent malaria and TB.

## 2004 GLOBAL HEALTH MILESTONES

- Making new progress in malaria vaccine development.** In October the Malaria Vaccine Initiative (MVI), a foundation grantee, announced promising results from a clinical trial of its leading vaccine candidate known as RTS,S. MVI, which is developing RTS,S in collaboration with GlaxoSmithKline, has initiated a large-scale trial of the vaccine in Africa.
- Exploring a novel approach to malaria control.** Studies conducted in Tanzania have suggested that giving infants a few doses of antimalarial drugs could be a safe and effective way of preventing the worst effects of the malaria. The Intermittent Preventive Treatment in Infants (IPTi) Consortium is leading an international effort to gather needed data on this innovative approach and lay the groundwork to implement it in developing countries. In 2004, the Consortium partners received foundation grants totaling \$16 million.
- Accelerating tuberculosis vaccine development.** The existing TB vaccine can reduce the risk of infection in children, but does not protect people over the many years that they are at risk for the disease. In February, the foundation announced a grant of \$82.9 million to the Aeras Global TB Vaccine Foundation to support human trials of promising TB vaccines and early research on the next generation of vaccines. In 2004, Aeras began trials of two promising new vaccine candidates.
- Fighting the joint HIV/AIDS and TB epidemics.** “We cannot win the battle against AIDS if we do not also fight TB,” Nelson Mandela told the XV International AIDS Conference in Bangkok in July. Mandela spoke at an event marking the launch of the Consortium to Respond Effectively to the AIDS-TB Epidemic (CREATE), supported by a \$44.7 million foundation grant. The Consortium will conduct research on two new strategies for treating and controlling TB in countries hard-hit by HIV/AIDS.
- Expanding access to HIV/AIDS prevention and treatment.** As access to HIV/AIDS treatment expands in developing countries, there is a critical window of opportunity to simultaneously scale up prevention. In July, the Global HIV Prevention Working Group, a group of international HIV prevention experts convened by the foundation and the Henry J. Kaiser Family Foundation, released HIV Prevention in the Era of Expanded Treatment Access, a report highlighting opportunities to scale up and adapt HIV prevention as treatment access expands.
- Enlisting private industry in the fight against neglected diseases.** Market barriers have long deterred biotechnology companies from investing in R&D on diseases of the developing world. In response, the Biotechnology Industry Organization launched BIO Ventures for Global Health with support from the foundation and the Rockefeller Foundation. BIO Ventures for Global Health is working to build new biotech partnerships and secure funding for promising new technologies to fight disease in developing countries.
- Identifying “what works” in global health.** The Global Health Policy Research Network, an international network of more than 50 health policy experts, published *Millions Saved: Proven Successes in Global Health*. An analysis of 17 global health programs in developing countries, the report documented the effectiveness of well-designed global health initiatives and identified common factors shared by many successful programs.

## 2004 GLOBAL HEALTH MILESTONES

**Bangladeshi  
community health  
pioneers honored.**

The Bangladesh Rural Advancement Committee (BRAC) received the 2004 Gates Award for Global Health, an honor that recognizes major and lasting contributions to the field of global health. BRAC was recognized for its pioneering network of community health clinics, nutrition centers, and grassroots health workers that serves 31 million poor Bangladeshis. BRAC's innovative approach has influenced health programs worldwide.

**Relief efforts for  
the Asian tsunami  
crisis.**

The foundation provided grants totaling \$3 million to support the five organizations providing emergency relief in the aftermath of the devastating tsunami in Asia: CARE, the International Rescue Committee, Mercy Corps, Save the Children, and World Vision.



## GRANTEE PROFILE

## AERAS GLOBAL TB VACCINE FOUNDATION

## Developing New Tuberculosis Vaccines for the World

TB has been a scourge since ancient times, but many people are unaware of the profound impact it continues to have on individuals and societies around the world today. It kills more than 2 million people every year.

TB is more than a disease—it is also a marker for poverty. It flourishes amid such conditions as malnutrition, substandard housing, minimal health care, and/or lack of access to it. While most of the world's TB burden exists in less developed countries, no region of the world is untouched.

One third of the world's population carries the tuberculosis bacterium. Five to 10 percent of people who are infected become sick at some time during their lifetime. Spurred on by the HIV global

epidemic, TB is the leading cause of death in HIV-infected individuals; one third of people infected with HIV will develop TB. Among infectious diseases, only HIV and diarrheal diseases kill more.

A new and improved vaccine is one of the keys to controlling TB. Most forms of TB can be treated with drugs, but the complex regimen we have today takes at least six months to complete and medicine is not always available in the world's poorest countries. The current TB vaccine used throughout most of the world, BCG (Bacille Calmette-Guerin), is almost a century old and appears to have limited efficacy.

“Our goal—and we believe it is achievable—is to license and deliver a more effective TB vaccine within 10

## GRANTEE PROFILE

years,” said Dr. Jerald Sadoff, president and CEO of the Aeras Global TB Vaccine Foundation, the world’s only organization dedicated solely to developing new vaccines against tuberculosis. An \$82.9 million grant to Aeras announced in February 2004 from the foundation will more than double the amount of money spent on TB vaccine research worldwide. “Until now, the world has devoted very few resources to the TB vaccine effort,” said Sadoff. “We have no time to lose in this pursuit. Each year without an effective vaccine means 2 million lives lost.”

Support from the foundation is enabling Aeras to dramatically expand the scope of TB vaccine development, testing updated versions of the BCG vaccine, and exploring new “prime-boost” regimens that have shown promising results in animal tests. Aeras has established a clinical research site in Cape Town, South Africa, where over 9,000 volunteers are enrolled in a trial testing different routes of administration of the existing BCG vaccine. This site will be used for Phase II and III trials of new TB vaccines, as will other sites in Asia and Latin America yet to be developed. In January 2004, Aeras began a Phase I clinical trial in the U.S. of the first live recombinant TB vaccine candidate (rBCG30).

Aeras is committed not only to increasing the pace of vaccine development, but also to operating with an industrial model that emphasizes accountability and transparency. Aeras is structured to meet realistic timelines and set clear priorities to push the most promising candidates through the vaccine pipeline. Working with scientists, companies, and governments in the U.S., Europe, South Africa, and other developing countries, Aeras is structured to promote multiple vaccine candidates simultaneously, so the best vaccine can be developed as quickly as possible.

Once a vaccine is proven safe and effective, Aeras will work to make it available at a price that developing countries can afford. “We are within reach of a vaccine that could not only save lives, but achieve the longstanding goal of bringing TB under control in the developing world,” said Sadoff. “The time has come for the world to finally defeat this disease.”



## OVERVIEW

HIGH SCHOOLS IN ALMOST EVERY CITY, IN EVERY DISTRICT IN AMERICA, ARE FAILING TO EDUCATE ALL OUR KIDS. THIS ISN'T A NEW PROBLEM—HIGH SCHOOLS HAVE NEVER WORKED FOR EVERYONE. FIFTY YEARS AGO, THOSE DROPOUTS COULD GET A FAMILY-WAGE JOB. TODAY, DROPPING OUT IS A MILLION-DOLLAR MISTAKE... THE PROBLEM CAN BE OVERWHELMING, THE WORK IS HARD, BUT WE MUST SUCCEED. I KNOW SUCCESS IS POSSIBLE, BECAUSE I'VE SEEN IT. SCHOOLS, DISTRICTS, AND CITIES AROUND THE COUNTRY ARE DOING AMAZING THINGS.

Tom Vander Ark  
Executive Director,  
Education

Since 2000, the foundation's Education Program has focused on increasing the percentage of students, particularly African Americans and Hispanics, who graduate from high school with the high-level skills they need to be successful in college, work, and citizenship.

America's public high schools are obsolete. They were designed for a different time. Their failure to redefine themselves and their mission has left today's students ill-prepared to meet the pressing economic and civic demands of the 21st century. According to recent reports from the Urban Institute and the Manhattan Institute, nearly one third of all incoming high school freshmen do not graduate. More than half of those who do earn a diploma don't have the skills to succeed in college or hold down a family-wage job. For the sake of our economy and our democracy, we must redesign the American high school.

To that end, the foundation's investments have helped support the creation of hundreds of rigorous, new, high-quality high schools and the conversion of large, struggling ones into dynamic smaller schools. These schools come in many forms, but all of them give students a rigorous, relevant curriculum and foster close relationships between students and adults. More than 400 such schools had opened in 40 states and the District of Columbia by the start of school in 2004.

In 2004, the Education program used ongoing, in-depth evaluations of our work to refine our grantmaking strategy. Our overarching goal remains the same: to raise graduation and college-readiness rates, particularly for African American and Hispanic students. But we have expanded our efforts from an emphasis on school-level investments to a broader and more deliberate strategy that focuses on every level of the system. This includes supporting district-wide strategies that embrace the mission of preparing all students

for college and work; forming partnerships with districts and states to improve existing schools and develop new schools; supporting statewide education policies that reinforce the goal of giving all students access to a top-notch education. We also pursued ongoing work with intermediaries to help them replicate proven new school models and strategies for improving schools.

We continue to invest in research and evaluation, which will inform our own efforts and provide tools for others. The work is challenging and complex, but we know success is possible—schools and districts across the country prove it every day.

## 2004 EDUCATION MILESTONES

**Opening new paths to college through expansion of early college high schools.**

One of the proven school models that we supported in 2004 is the early college high school. It gives traditionally underserved students a rigorous, college-level curriculum and the opportunity to earn two years of college credit or an Associate's degree. We committed an additional \$29.6 million in grants to eight organizations to expand the network of early college high schools to more than 25 states. Since 2001, the early college high school network has received more than \$124 million in support from the Bill & Melinda Gates Foundation, Carnegie Corporation of New York, W.K. Kellogg Foundation, Woodruff Foundation, and Ford Foundation. As of fall 2004, nearly 50 early college high schools had opened, educating more than 8,000 students in 19 states. By fall 2008, more than 170 early college high schools will be open throughout the country, ultimately serving more than 65,000 students.

**Continuing progress in urban districts.**

We continued to deepen our partnerships and expand our investments in some of the nation's largest urban areas, including New York City, Oakland, and Chicago. The civic, political, and education leaders in these cities have come together to give young people more options for a rigorous education by supporting hundreds of new high schools. The foundation's additional investments and partnerships are designed to expand access to high quality high schools in these cities and support our partners through technical assistance, materials, and community outreach.

**Urging local leaders to prepare all students for success.**

In her remarks to the 2004 National School Boards Association Conference in Orlando, Melinda Gates declared, "All students should graduate ready for college." This notion—that all students need the high-level skills required for college—is the underpinning of the foundation's education investments. Gates urged the school board members to help their districts set high expectations and provide high-quality high schools for all students:

*"If we believe that all students can graduate college ready and that our democracy demands no less, then we need to get that message out. We need to let everyone know how important this goal is. We need to ensure that all students have access to classes that prepare them for college. And we need to make sure that students know they have this access. Young people want to be challenged—and they excel when they are."*

**Supporting dynamic new schools across the country.**

In fall of 2004, more than 250 new or redesigned high schools opened across the country, including 55 in Ohio and 53 in New York City. Some of the new schools emphasize science, arts, or technology, and others help the most at-risk students finish high school and go on to college. One of the new schools was Aviation High School, which opened within walking distance of Boeing Field and other aviation businesses just south of Seattle. The school focuses on aviation, aerospace, and technology to engage and challenge students.

## 2004 EDUCATION MILESTONES

### **Developing the next generation of leaders.**

Too many talented students don't get a college degree because of financial barriers. That's why in 2004, the foundation helped more than 1,750 students continue their education through its scholarship programs. The Gates Millennium Scholars program awarded college scholarships to 1,000 low-income, minority students; the Washington State Achievers program awarded scholarships to 500 graduating high school seniors; and the Gates Cambridge Scholars sent 250 international students to graduate school in Cambridge, England.

### **Sponsoring research.**

In 2004 Achieve, Inc., a key partner of the foundation's, released *Ready or Not: Creating a High School Diploma That Counts*. The report found that no matter what their post-high school plans are, whether working or continuing their education, high school graduates need the same basic knowledge and set of core skills, including a familiarity with algebra, statistics, and the ability to speak and write clearly. But most high school graduates are not getting these skills. As a result, the majority of college freshmen need remedial help, too few students ever attain a degree, and employers complain that recent high school graduates don't have what they need. The foundation is funding Achieve, Inc. to launch the American Diploma Project 2, an initiative aimed at working with states to address these issues over the next four years.

### **Contributing to the national discussion.**

Education leaders, policymakers, and opinion leaders increasingly turned their attention to the shortcomings of the American high school system. Both major presidential candidates discussed high school reform and the National Governors' Association launched its Redesigning the American High School Initiative. Major newspapers and other publications began to address the issue more consistently and in depth. As momentum grows around high schools, we continue to partner with national, state, and local leaders in moving the national discussion toward solutions.



## GRANTEE PROFILE

## DAYTON EARLY COLLEGE ACADEMY

## Making College a Reality for All Young People

On the third floor of a building that was once home to a cash register company in Dayton, Ohio, 166 students and their teachers are redefining the American high school. The Dayton Early College Academy, known by students and teachers as “DECA,” is a bold new model of high school that is blurring the line between high school and college in an effort to raise graduation rates and give all students the high-quality education today’s economy demands. One of nearly 50 early college high schools around the nation, DECA provides rigorous coursework in a personalized setting and allows students to earn two years of college credit while still in high school. The mostly low-income, minority students at the school are often the first in their families to attend college.

The innovative formula is working for 16-year-old DECA student Joshua Hawes. When he thinks about his former school—a large, impersonal middle school—Joshua remembers classes of 36 students and teachers who had no time to give him attention or extra help.

“I thought I wasn’t smart enough to go to college,” he recalls “I didn’t think I’d be able to go.”

That’s not the case anymore. Joshua, who serves in DECA’s student government, has already picked out a handful of top choices for college and talks of going to law school to become a U.S. Senator. He says the family-style setting and constant encouragement have given him the opportunity to dream.

## GRANTEE PROFILE

When it opened in the mostly vacant office building in 2003, DECA was one of the first schools in an early college high school network supported by the Bill & Melinda Gates Foundation and other foundations. The school boasts an attendance rate of 97 percent and significantly higher scores on state exams than other Dayton Public Schools.

These early college high schools share the traits of all good schools including academic rigor, personalization, and a common focus. And they are designed to address an emerging reality: The skills needed to earn a family wage and those required to attend college are becoming essentially the same.

“For two generations, affluent students have increasingly had access to college credit opportunities in high school, both advanced placement courses and dual enrollment opportunities,” said Tom Vander Ark, executive director of education at the foundation. “This initiative seeks to provide that same benefit to low-income and minority students in a highly supportive environment.”



## OVERVIEW

**TODAY, IF YOU WANT TO FIND A JOB, START A BUSINESS,  
OR GET A DEGREE, IT'S HARD TO DO WITHOUT THE INTERNET.  
AND FOR MANY PEOPLE, THE LIBRARY IS THE ONLY PLACE  
TO ACCESS THE INTERNET. THAT'S WHY WE'VE GOT TO HELP  
LIBRARIES STAY CONNECTED.**

Sylvia M. Mathews

Chief Operating Officer and Executive Director,  
Global Libraries, Strategic Opportunities

Thanks to computers and the Internet, more people worldwide have knowledge at their fingertips. But the true benefit of this won't be realized until all people have equal access to the same technology.

In the United States, public libraries ensure equity in access. Since 1997, the foundation has worked in partnership with public libraries to install more than 47,000 computers in nearly 11,000 public libraries and provide training sessions. Today, nearly every U.S. public library offers free access to computers and the Internet to anyone who walks through the doors. More than 14 million Americans use library computers each year to do research for school or work, find a job, start a business, or communicate with family and friends. Traditionally “digitally divided” groups, African Americans, Hispanics, Native Americans, and those with lower income and education levels, often rely on these computers for their only Internet access.

The challenge now is to ensure U.S. public libraries can continue to provide the technology and training to keep pace with their communities' needs. In 2004, to help libraries stay connected, the foundation moved into the next phase of its commitment, focusing on three key areas. First, the foundation supports efforts to keep libraries open so community members always have access to knowledge. Second, the foundation makes grants to help libraries keep computer systems running through hardware and software upgrades, maintaining Internet connectivity, and technical support. Third, the foundation supports opportunities to increase training for library staff.

Internationally the foundation continues to work toward increasing free, public access to information through partnerships with Chile and Mexico. Building upon lessons learned in the United States, Chile, and Mexico, the foundation is developing a strategy to expand its international initiatives, and will be partnering with additional countries in the coming years.

## 2004 LIBRARIES MILESTONES

- Libraries help bridge the digital divide.** The foundation, in collaboration with national civic organizations, published *Toward Equality of Access*, a report on the status of connectivity in public libraries. The report found that public libraries have helped close the digital divide by providing free computer access. This service has especially benefited certain socioeconomic groups that are less likely to have access at home or work. The report also revealed that many public libraries struggle to sustain information technology despite widespread awareness and support.
- Public libraries in national spotlight.** *The New York Times* and *Good Morning America* (ABC) featured stories about the benefits of Internet access in public libraries. Melinda French Gates talked about the foundation's commitment to ensuring everyone has equal access to technology after her tours of public libraries in Sissonville, W.Va., and New York City. *The New York Times* summarized how libraries have embraced the relatively new technology: "For the library, supplying patrons with access to the Internet and the Web has become central to its mission, an updating of its long tradition of providing information free to the public."
- Technical support and training for library staff.** To ensure that librarians continue to receive technical support for their technology programs, the foundation transitioned its call center to [www.webjunction.org](http://www.webjunction.org), an online resource center for library staff. The technical support section of the Web site received an average of 13,000 visits per month in 2004. Before the transition, foundation staff answered more than 150,000 calls and logged more than 64,000 cases in support of U.S. and Canadian libraries and the Native American Access to Technology grant recipients.
- Libraries' success requires commitment from all.** Bill Gates Sr. paid special tribute to librarians at the 2004 Public Library Association Conference for their commitment to connecting community members with information and education via books and computers. He also urged the wider community to support libraries: "If we do not work together to establish reliable funding, public libraries in many parts of the country could lose this lifeline that connects so many people to the world of education, employment, health-and their families."
- Helping libraries and communities stay connected.** The foundation made Staying Connected grants to 37 states and the District of Columbia to help them maintain Internet access in their poorest communities. States receiving grants matched the \$10.9 million investment with more than \$7 million in public and private funds. This marked the second and final round of Staying Connected grants; the foundation made \$5.8 million in grants to 18 states in 2003. Melinda French Gates traveled to West Virginia to announce the grants and hold up the state as a national model of library support. She was joined by Sen. Jay Rockefeller, Gov. Bob Wise, and other state leaders.

## 2004 LIBRARIES MILESTONES

### **An online community for public librarians.**

WebJunction.org, an online community for public librarians, continued to provide training opportunities, hardware and software buying guides, technical support and virtual space for discussion, and resource sharing to help librarians sustain public access computing. For example, in 2004 the foundation and WebJunction launched a pilot program to help library staff assess the technology needs of Spanish speakers in their communities and then create services to meet those needs. WebJunction supports local workshops and provides online training and discussion groups where librarians can share best practices.

### **Supporting librarians in rural areas.**

Nearly 80 percent of all library systems serve rural areas or small towns. Librarians in smaller communities often face the biggest challenges, yet typically have few training opportunities. The foundation conducted workshops for more than 100 librarians serving rural communities in nearly every state. The workshops provided useful tools to help them sustain technology and generate support for public access computing. In a follow-up survey of workshop participants, more than 80 percent reported that they had begun to implement action plans for increasing support for public access computing in their communities.

### **Recognizing public access computing programs in China and Denmark.**

Two libraries received the annual Access to Learning Award, which recognizes international libraries for the innovative ways in which they are connecting disadvantaged patrons with free, public access to computers and the Internet. The Aarhus Public Libraries in Denmark developed an impressive program to deliver multimedia library services to a growing refugee and immigrant community. In China, the Evergreen Rural Library Service Center is working with high schools to create computer labs and offer technology training in four provinces with high poverty and illiteracy rates.

### **Increasing access in international libraries.**

To build on the success of Chile's Directorate of Libraries, Archives, and Museums' (DIBAM) efforts to bring Internet access and staff training for all 368 libraries in the country, the foundation announced an additional grant of \$1 million in 2004. The foundation initially invested \$9.3 million in the project in 2001. The foundation also continues its partnership with Mexico's libraries. By the end of 2004, Mexico's Digital Access to Library Services (DALs) had reached 680 libraries and installed 4,201 computers to serve low-income and disadvantaged communities across Mexico.



## GRANTEE PROFILE

## NATIVE AMERICAN ACCESS TO TECHNOLOGY PROGRAM

## Linking Culture and Community in the Navajo Nation

Most college students in the United States take for granted ready access to computers and the Internet on campus. But for students in the remote Navajo Nation, this technology is a luxury.

Lewanda Tsosie lives in Many Farms, a small Arizona community in the middle of the 27,000-square-mile Navajo Nation. When she attended the tribal college she didn't have a personal computer. To complete her courses, she relied heavily on computers at the community's center, Chapter House.

"I needed the computers to do research papers, talk to my teachers, and firm up my schedule," Tsosie said. "When the Chapter House was closed at the night, I would drive around struggling to find a computer I could borrow."

Tsosie's experience is common in the Navajo Nation, where few residents have home computers and many live without phones. While nearly every American home has a telephone, only four out of 10 Navajo homes do. For many, the Chapter House offers the only phone and Internet service for miles.

As part of its Native American Access to Technology Program, the foundation has invested \$5.9 million since 2000 to help Navajo Nation chapters bring the Internet to their communities. Microsoft donated software, and Gateway offered discounts on computers. Technical assistance came from Arizona State Library, Archives and Public Records, and the New Mexico State Library.

## GRANTEE PROFILE

Today every Navajo chapter has a high-speed Internet connection. Before this partnership, only 17 of 110 Navajo chapters offered public access to computers and the Internet. Today, every chapter has a high-speed Internet connection, often provided by satellite hookups in remote areas.

Overall, the foundation has worked with 43 tribes in Arizona, Colorado, New Mexico, and Utah to provide computers, peripherals, training, and technical support for a total investment of \$9.6 million. This program provided access to tools and technology to preserve local culture and heritage, as well as opportunities for communities to teach digital skills to its members.

There's little doubt that investing in technology reaps tremendous benefits for American Indian communities. But despite the triumphs of bringing the Internet to the Navajo Nation, there are many financial challenges in sustaining this service. A recent bright spot is the influx of federal funding—\$2.8 million through the E-rate program—that helps offset network and connectivity costs. But additional funding and resources are needed to ensure that members of the Navajo Nation will continue to benefit from new technologies.

“Access to computers and the Internet is critical to the economic development of the Navajo Nation,” said Ernest Franklin, who works in the national Navajo government to ensure each chapter realizes the benefits of technology. Franklin also recognizes the importance of young people learning technological skills for education and work.

“Computer access has increased education opportunities for the more than 500 American Indians and Alaska Native people taking distance learning classes at Northern Arizona University,” said NAU Vice President Fred Hurst. The university has established four computer labs in the Navajo Nation.

“New technology is allowing students on the Navajo Nation and other rural areas to get degrees when they otherwise wouldn't be able to because of distance or technological barriers,” said Hurst. “These students then use their education to improve their communities.”



## OVERVIEW

**IN EVERY PART OF THE WORLD, A STRONG AND STABLE FAMILY IS THE CORNERSTONE TO A THRIVING SOCIETY AND IT'S NO DIFFERENT HERE IN THE PACIFIC NORTHWEST. WE'RE PRIVILEGED TO LIVE IN A REGION RICH WITH ORGANIZATIONS THAT BRING RENEWED CREATIVITY TO STRENGTHEN AT-RISK FAMILIES. WE'RE PROUD TO BE THEIR PARTNERS.**

**Bill Gates Sr.**

Co-chair

Too often, too many families in our own backyard lack the basic resources that are essential to give children a strong start in life. Nearly one quarter of children in Washington state are at-risk because of poverty coupled with other risk factors. Nearly half of all shelter residents across Washington state are families with young children and in King County, Washington, a minimum wage worker must work at least 101 hours a week to afford a modest, two-bedroom apartment.

Working with many public and private partners, the foundation's Pacific Northwest program aims to positively impact the lives of families and children in need, by placing a special emphasis on expanding supportive housing options for low-income families, investing in programs designed to help at-risk children and youth, and increasing access to technology for disadvantaged communities. Whenever possible, the foundation provides challenge and matching grants that assist Washington and Oregon nonprofit organizations in strengthening their programs and infrastructure.

The Pacific Northwest program is focused specifically on helping families in the Northwest, primarily those in Washington state. But the foundation's investments in the Pacific Northwest span all four areas of giving. For example, our Education program works with Washington school districts to help raise graduation rates and ensure that every student graduates ready for college, work, and citizenship. Our Global Health and Global Libraries programs also partner with key grantees in the region that are working to develop global health solutions or providing access to information via computers in public libraries. Collectively, the foundation has invested more than \$1 billion in the Pacific Northwest.

For the Pacific Northwest program, 2004 was a year marked by significant progress, particularly in the area of expanding resources for our state's homeless families. Seeing

the success of the Sound Families Initiative, the state Legislature created the Washington Families Fund, a public-private partnership to fund non-profit organizations providing critical support services. These services include job training, domestic abuse counseling, parenting classes and financial planning, which are all linked to affordable housing. These are all linked to affordable housing. Initial findings from the University of Washington's School of Social Work's evaluation of the Sound Families Initiative show supportive housing plays a significant role in bridging families back to stability. Nearly 90 percent of families go on to permanent housing after leaving Sound Families transitional housing units and parents report seeing improvements in their children's attendance in school and behavior.

Every year, Gates Foundation grantees note similar positive change among the families and children they serve. We are a proud supporter of these organizations diligently working to transform lives from vulnerability to thriving stability.

## 2004 PACIFIC NORTHWEST MILESTONES

- Increasing access to quality early learning.** A child develops most dramatically by age three, but too often our region's vulnerable families have limited choices for their child's care and development during these early years. To increase access to quality early learning, the foundation funded five capital projects for child or infant care centers in Olympia, Puyallup, and Steilacoom in Washington and Hillsboro and Burns in Oregon. Combined these centers are estimated to serve 570 children annually.
- Creating new resources for vulnerable parents.** Parents are faced with hundreds of questions in their child's first years. To equip new parents with key resources for raising healthy children, the foundation made grants to organizations in Burien, Federal Way, Kent, North Bend, Olympia, and Port Angeles, Washington, and Forest Grove, Oregon. These organizations provide job readiness training, parenting skills development, case management, and in-home support for more than 2,500 families each year.
- Creating new after-school opportunities for at-risk youth.** Throughout Washington the foundation made 14 grants totaling \$2.8 million to create or expand programs for more than 17,000 at-risk youth. These programs offer opportunities for recreation and learning during the after-school hours, a time that experts say is crucial to provide kids with positive choices and options.
- Creating solutions for homeless families.** Stability begins with a safe place to call home. In the Puget Sound region, the foundation continues to expand supportive housing options for homeless families, or families in danger of becoming homeless, through its Sound Families Initiative. In 2004, the foundation granted \$2.3 million through 10 grants to housing developers and service providers to create new service-enriched housing for at-risk families in King, Pierce, and Snohomish counties. By the end of 2004, 846 new housing units had been funded through the Sound Families Initiative.
- Building strong and diverse communities.** The foundation seeks to level the playing field for disadvantaged communities while honoring their unique cultures. In 2004, the foundation granted \$3.1 million to eight organizations making a positive difference in the lives of refugee, immigrant, and Native American communities.
- Strengthening nonprofits' capacities.** Fourteen nonprofits successfully fulfilled capital campaign challenge or matching grants in 2004, leveraging resources from the foundation to broaden their funding bases for long-term sustainability. The foundation also awarded 15 new capital campaign challenge or matching grants totaling \$7 million.



## GRANTEE PROFILE

## WASHINGTON FAMILIES FUND

## Solutions for Homeless Families

Families with children now make up about half of our nation's homeless population. In Washington state, the trend is no less grim: Last year, 50 percent of individuals who accessed emergency homeless shelters were families with children.

But experts agree there are solutions at hand. Research proves that housing linked with well-coordinated support services—like job training, childcare, domestic violence counseling, and substance abuse counseling—can make the difference between a family's successful transition to permanent housing and repeated episodes of homelessness.

In 2004, the Washington Legislature took notice—and action. Based in part on early findings from the Sound Families Initiative (the foundation's program for

homeless families in the Puget Sound region), and on a growing recognition that the state's service providers lacked necessary public financing, the Legislature allocated a one-time appropriation to create the Washington Families Fund, a first of its kind resource for homeless families statewide. The \$2 million appropriation also makes Washington the first state in the nation to create a reliable, long-term source of funding for supportive services to homeless children and their families.

The Bill & Melinda Gates Foundation launched Sound Families in 2000, a program to develop new transitional housing and to expand support services for homeless families, or families in danger of becoming homeless in King, Pierce, and Snohomish counties. Early

## GRANTEE PROFILE

evaluation data from the program has indicated positive outcomes, including the following:

- 89 percent of families went on to permanent housing;
- 49 percent of families increased their incomes;
- 16 percent fewer families relied on Temporary Assistance to Needy Families (TANF).

The Washington Families Fund could top \$5 million by the end of 2005. In addition to the \$2 million in seed money from the Legislature, private sector partners have pledged support, including \$100,000 from the Medina Foundation, \$25,000 from the Seattle Foundation, and \$1 million from the Gates Foundation. The foundation also has pledged an additional \$1 million in matching funds to draw additional private dollars.

The Washington Families Fund fills an acute need—stable, long-term funding for both on- and off-site support services tied to affordable housing, allowing nonprofit organizations to increase comprehensive and individualized case management services for homeless families throughout the state.

Lorenzo DeVargas, a program director with a Clark County-based service provider called Share, understands the potential impact of the fund first-hand. “Simply put, this fund means fewer families will be sleeping in cars or tents or on neighbor’s couches. Organizations like mine have never had access to stable funding—we now will be able to help hundreds of homeless families get back on their feet and into stable housing.”

For Pamela Roberts, a formerly homeless mom living in Spokane, intensive case management services are the reason she and her family are back in stable housing. “A car accident and other unexpected bills left me and my children without a place to turn. But my case manager was there for me at every key decision point, and walked alongside me when I needed a strong supporter most. Today my kids and I are on our feet and working towards financial stability, and I’m studying to attend medical school. I’m looking forward to giving back to my community.”

AIDS Housing of Washington (AHW), a long-time partner of the foundation and Sound Families, is administering the fund. The first round of grants is expected to be distributed in the summer of 2005.



## FINANCIALS OVERVIEW

The foundation's condensed statements of financial position, activities, and grants paid for the years ended December 31, 2004 and 2003 are presented in this section.

To present a clearer picture of the endowment balance available for charitable purposes, the foundation has provided condensed financial statement information that departs from generally accepted accounting principles (GAAP) in two ways. First, the accompanying condensed financial statements include only summarized statements of financial position and statements of activities, and do not include statements of cash flows or the footnote disclosures. Second, the foundation has combined investments loaned under secured lending transactions, liabilities under investment loan agreements, investment sale receivables, and investment purchases payable and included the net result within investments.

The foundation's financial statements undergo an annual audit, which is conducted by KPMG. They audited our financial statements for the years ended December 31, 2004 and 2003, which are presented in conformity with GAAP, and they expressed an unqualified opinion on these financial statements. A copy of KPMG's audit report dated March 18, 2005 may be viewed in our Annual & Financial Reports section of our Web site at:

<http://www.gatesfoundation.org/NR/Downloads/financialreports/2004FinancialStmts.pdf>

Additional information about the foundation can be found in our 2003 annual information return, called the Form 990-PF-Return of Private Foundation, which is available in our Annual & Financial Reports section of our Web site at:

<http://www.gatesfoundation.org/AboutUs/Annual-FinancialReports/>

**Allan C. Golston, C.P.A.**

*Chief Financial and Administrative Officer*

## CONDENSED STATEMENTS OF FINANCIAL POSITION

For the years ended December 31, 2004 and 2003

Amounts in thousands.

Assets	2004	2003
Cash and cash equivalents	\$ 184,026	\$ 41,387
Investments	28,312,620	26,431,305
Interest and dividends receivable	278,714	300,881
Federal excise tax refunds receivable	2,850	12,945
Program related investment receivable	1,440	1,440
Property and equipment, net	18,959	22,560
<b>TOTAL ASSETS<sup>1</sup></b>	<b>\$ 28,798,609</b>	<b>\$ 26,810,518</b>

Liabilities and Net Assets	2004	2003
Liabilities:		
Accounts payable	\$ 5,736	\$ 4,726
Accrued and other liabilities	19,482	15,583
Deferred excise taxes	34,039	26,034
Grants payable, net	1,885,063	1,672,868
<b>TOTAL LIABILITIES<sup>1</sup></b>	<b>1,944,320</b>	<b>1,719,211</b>
Net Assets:		
Unrestricted net assets	26,854,289	25,091,307
<b>TOTAL LIABILITIES and NET ASSETS<sup>1</sup></b>	<b>\$ 28,798,609</b>	<b>\$ 26,810,518</b>

Investments reflected at market value; all other assets shown at cost.

<sup>1</sup>For purposes of this presentation, the foundation has departed from the presentation required under accounting principles generally accepted in the United States of America by netting amounts loaned and payable under secured lending agreements and by netting investment sales receivable and investment purchases payable. Had these amounts not been netted, total assets for 2004 and 2003 would be \$36,115,584 and \$33,678,517, respectively; total liabilities for 2004 and 2003 would be \$9,261,295 and \$8,587,210, respectively; and total liabilities and net assets for 2004 and 2003 would be \$36,115,584 and \$33,678,517, respectively.

## STATEMENT OF ACTIVITIES

For the years ended December 31, 2004 and 2003

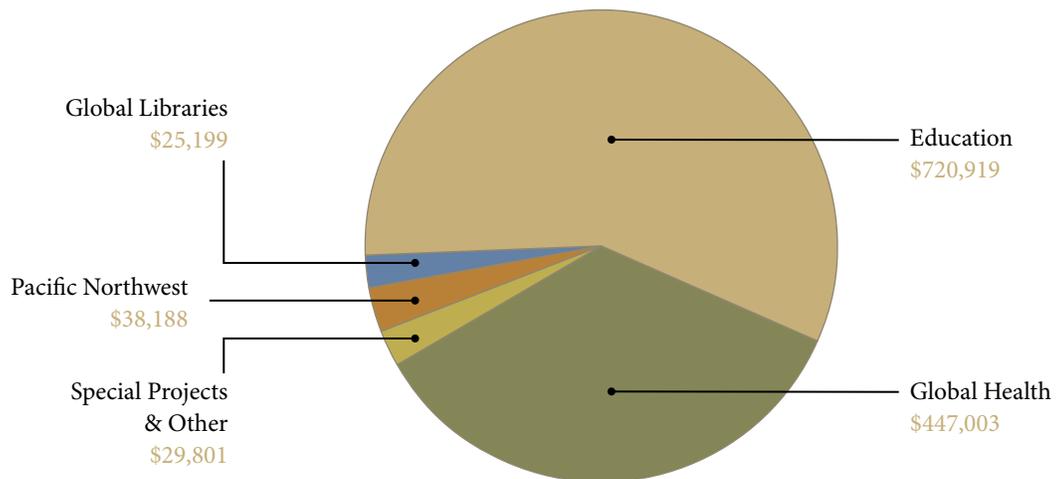
Amounts in thousands.

Changes In Net Assets	2004	2003
Revenues and gains:		
Contributions	\$ 711,453	\$ 81,915
Investment income, net	2,632,002	3,928,204
<b>Total Revenues and Gains</b>	<b>3,343,455</b>	<b>4,010,119</b>
Expenses:		
Grants	1,464,573	1,359,635
Direct charitable expenses	25,297	32,836
Program and administrative expenses	68,303	54,534
Federal excise tax	22,300	34,054
<b>Total Expenses</b>	<b>1,580,473</b>	<b>1,481,059</b>
Increase in net assets	1,762,982	2,529,060
Unrestricted net assets, beginning of year	25,091,307	22,562,247
<b>UNRESTRICTED NET ASSETS, END OF YEAR</b>	<b>\$ 26,854,289</b>	<b>\$ 25,091,307</b>

## GRANTS PAID

Summary of grants paid by program area for the year ended December 31, 2004.

Amounts in thousands.



Program Area	2004	2003
Education	\$ 720,919	\$ 531,232
Global Health	447,003	576,624
Pacific Northwest	38,188	44,473
Special Projects & Other	29,801	14,463
Global Libraries	25,199	18,432
<b>Totals</b>	<b>\$ 1,261,110</b>	<b>\$ 1,185,224</b>

This chart represents grants paid out by the foundation. These numbers differ from grant expenses per our audited financial statements, which are shown on an accrual basis as required by generally accepted accounting principles (GAAP).

## SELECTED GRANTS

These are just a few of the more than 400 grants we made in 2004. For more information on our grants please visit our Grant Highlights section of our Web site.

## Global Health

**Global Fund to Fight AIDS, Tuberculosis (TB) and Malaria**

To support efforts to fight HIV/AIDS, TB, and malaria in the developing world.

\$50,000,000

**Institute for One World Health**

To support the development of a novel treatment for diarrhea in infants and children in the developing world.

\$46,070,160

**Johns Hopkins University**

To support the Consortium to Respond Effectively to the AIDS-TB Epidemic (CREATE), which will conduct research on urgently needed strategies to control TB in communities with high HIV infection rates.

\$44,651,305

**National Academy of Sciences**

To enable African scientific communities to provide policy advice in the public interest.

\$20,000,000

**Voluntary Health Services**

To reduce the spread of HIV infection among female sex workers and their clients in Tamil Nadu, India.

\$12,978,870

## Education

**Council of Chief State School Officers**

To provide states with sophisticated, Web-based data tools that will strengthen accountability and improve results through data-driven decision making.

\$25,000,000

**Portland Community College**

To support existing and develop new College Bound sites to support at-risk youth.

\$6,997,047

**Achieve, Inc.**

To assist strategic states and to encourage all states to put in place high school graduation requirements that align with college entry requirements.

\$4,095,931

**National Council of La Raza**

To create new early college charter high schools and redesign existing charter high schools.

\$3,632,666

**University System of Georgia Foundation Inc.**

To support the development and implementation of six Early Colleges in Georgia for students underserved in traditional high schools.

\$2,000,000

## Global Libraries

**OCLC Online Computer****Library Center, Inc.**

To support workshops on sustaining public access computing in rural libraries in all 50 states.

**\$6,849,383**

**Direccion de Bibliotecas,  
Archivos y Museos (DIBAM)**

To provide 100 public access computers in the new Biblioteca de Santiago (Santiago Public Library) and create 13 mobile laboratories to serve remote areas in each region of the country.

**\$998,578**

**Office of the Secretary of State****Illinois State Library**

To support public access computing sustainability efforts in Illinois public libraries including upgrading computer labs in high-poverty communities and expanding training opportunities for public library staff statewide.

**\$662,400**

**OCLC Online Computer****Library Center, Inc.**

To support an outreach program to make the library and technology programs more accessible to Spanish-speaking patrons.

**\$471,900**

**Florida State University****Research Foundation**

To support a national survey of public libraries and public access computing in the United States to better understand and communicate the library's role in providing access to the Internet and the impact this service has on the community.

**\$303,893**

## Pacific Northwest

**Asian Counseling and Referral Service**

To support a capital campaign for a multi-service center serving immigrants and refugees living in King County of Washington state.

**\$1,000,000**

**Consejo Counseling & Referral Service**

To support the construction of Villa Esperanza, a new 23-unit transitional housing facility in Federal Way, Washington with supportive services for homeless families to help them stabilize and become more self-sufficient.

**\$632,500**

**YMCA of Greater Seattle**

To support an advanced computer skills training and GED completion program for high school dropouts in Seattle, Washington.

**\$480,946**

**The Potlatch Fund**

To support capacity-building and training for Native American nonprofit organizations in Washington and Oregon.

**\$300,000**

**Chelan-Douglas Community Action  
Council**

To support a capital campaign including a food bank, Head Start center, and family support services in Wenatchee, Washington.

**\$285,000**



### Founders



Bill Gates  
*Co-founder*



Melinda French Gates  
*Co-founder*

### Co-Chairs



Bill Gates Sr.  
*Co-chair*



Patty Stonesifer  
*Co-chair and President*

### Executive Team

Sylvia M. Mathews  
*Chief Operating Officer and  
Executive Director*

Richard D. Klausner, M.D.  
*Executive Director, Global Health*

Allan C. Golston, C.P.A.  
*Chief Financial and  
Administrative Officer*

Tom Vander Ark  
*Executive Director, Education*